

**EB-2019-0261**

**IN THE MATTER OF** the *Ontario Energy Board Act, 1998*,  
S.O. 1998, c. 15, (Schedule B);

**AND IN THE MATTER OF** an application by Hydro Ottawa  
Limited for an order approving just and reasonable rates and  
other charges for electricity distribution to be effective  
January 1, 2021 and for each following year through  
December 31, 2025.

**REPLY ARGUMENT**

**FILED OCTOBER 27, 2020**

## HYDRO OTTAWA REPLY ARGUMENT

### A. INTRODUCTION

1. This Reply Argument is filed with the Ontario Energy Board (“OEB”) in connection with Hydro Ottawa Limited’s (“Hydro Ottawa” or “the utility”) Custom Incentive Rate-setting (“Custom IR”) Application (the “Application”) submitted under section 78 of the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15 (Schedule B) on February 10, 2020.
2. In accordance with Procedural Order No. 8, Hydro Ottawa filed an Argument-in-Chief on October 13, 2020. In its Argument-in-Chief, Hydro Ottawa submitted that its proposed rate designs are appropriate and fall within current OEB policy and guidelines.
3. In response to its Argument-in-Chief, Environmental Defence (“ED”) filed a submission on October 16, 2020. On October 20, 2020, OEB Staff and the following six intervenors filed further submissions: Building Owners and Managers Association (“BOMA”), Distributed Resource Coalition (“DRC”), Energy Probe Research Foundation (“Energy Probe”), Pollution Probe (“PP”), School Energy Coalition (“SEC”) and Vulnerable Energy Consumers Coalition (“VECC”). No submission was received from Consumers Council of Canada (“CCC”).
4. In their submissions, ED, BOMA, DRC and PP requested that the OEB direct Hydro Ottawa to begin lowering its fixed charges, and made assertions that this would bring its fixed charges more in line with the principles of cost causality, economic efficiency and sound rate-making. Hydro Ottawa discusses why it disagrees with these assertions within this Reply Argument.
5. Energy Probe, SEC, VECC and OEB staff in general agree with Hydro Ottawa that current OEB policy should be followed and that the fixed rates for 2021 should be maintained as proposed. There is disagreement regarding the proposed fixed rates for the 2022-2025 period. In addition, OEB staff and the three aforementioned intervenors

- replied to a number of arguments put forth by Hydro Ottawa in its Argument-in-Chief, which Hydro Ottawa has addressed within this Reply Argument.
6. In the following sections, Hydro Ottawa provides its reply to the submissions of the parties. Hydro Ottawa's reply submission follows the following three main themes:
    - a. Current OEB Policy;
    - b. Just and Reasonable Rates; and
    - c. Customer Impact and Rates Stability.
  7. Within these main themes, Hydro Ottawa also discusses ongoing OEB consultations, specifically the Rate Design for Commercial and Industrial Customers (EB-2015-0043) ("C&I rate design") and Utility Remuneration and Responding to Distributed Energy Resources (EB-2018-0287 and EB-2018-0288). Hydro Ottawa suggests the fixed/variable split discussion should take place in the context of these broader generic consultations.
  8. Hydro Ottawa does not address every comment made by the Intervenors and OEB Staff but provides commentary as it pertains to the three main themes outlined above.
  9. In summary, Hydro Ottawa believes that its proposal for 2021 fixed/variable rates and of holding the fixed/variable split in the years 2022-2025 generally at the 2021 levels for the discussed rate classes is appropriate<sup>1</sup>.

## **B. CURRENT OEB POLICY**

### **Cost Allocation and Rate Design**

10. Hydro Ottawa believes that its proposal for 2021 fixed monthly service charges and the distribution variable rates for the General Service ("GS") 50-1,499 kW, GS 1,500-4,999 kW, and Large User classes and of holding the fixed/variable split in the years

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<sup>1</sup> Balancing revenue requirement against changes in demand and demographics will result in small shifts in the fixed/variable ratios. For the three commercial customer classes under discussion, the portion of forecast revenue ascribed to the fixed monthly service charge decreases slightly in the final years of the Rate Application.

- 2022-2025 generally at the 2021 levels is appropriate<sup>2</sup> and follows current OEB policy. Moreover, any change to current OEB policy should be contemplated in the context of a broader generic consultations, which Hydro Ottawa notes is underway.
11. On November 28, 2007, the OEB issued its report entitled Application of Cost Allocation for Electricity Distributors.<sup>3</sup> This report acknowledged that questions remained regarding the appropriateness of the methodologies presented for developing the Monthly Service Charge.<sup>4</sup> It further stated that the OEB did not expect LDCs to make changes to their Monthly Service Charge that resulted in a charge higher than the ceiling and that LDCs which were then above the ceiling value were not required to make changes to their Monthly Service Charge bringing it to or below the ceiling level. The latest update to the Chapter 2 Filing Requirements, issued May 14, 2020, reiterates the position that there is no requirement to lower Monthly Service Charges to the calculated ceiling.
12. Hydro Ottawa has used the OEB's Cost Allocation Model to assign costs to customer classes for the purpose of designing rates for the 2021 Test Year. The result is that the GS 50-1,499 kW, GS 1,500-4,999 kW, Large User and Standby Power customer classes would have proposed fixed monthly service charges that further exceed the upper bound as calculated in the Cost Allocation Study. Consequently, Hydro Ottawa is proposing to maintain the 2021 fixed monthly service charge for these classes at their 2020 approved values. In their responses to Hydro Ottawa's Argument-in-Chief, OEB Staff and intervenors representing Energy Probe, SEC and VECC have agreed that Hydro Ottawa's rate proposal conforms to OEB direction by holding commercial class Monthly Service Charges constant in 2021. No intervenor has indicated Hydro Ottawa's proposed 2021 rates are against OEB policy.

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<sup>2</sup> Balancing revenue requirement against changes in demand and demographics will result in small shifts in the fixed/variable ratios. For the three commercial customer classes under discussion, the portion of forecast revenue ascribed to the fixed monthly service charge decreases slightly in the final years of the Rate Application.

<sup>3</sup> Ontario Energy Board, Application of Cost Allocation for Electricity Distributors - Report of the Board, EB-2007-0667 (November 28, 2007).

<sup>4</sup> Ibid., page 12.

13. Hydro Ottawa did not submit a Cost Allocation Model for each year of its Application. Rates for subsequent years (2022-2025) were inflated proportionately from the previous year to recover forecast revenue requirement by customer class while maintaining fixed/variable proportions as closely as possible. As an exception to this process, in cases where year-over-year changes to customer numbers or demand resulted in a lower fixed monthly service charge for a customer class than the previous year, that charge was held constant. For this reason, fixed rates for the GS 1,500-4,999 kW customer class were held constant for the final two years of Hydro Ottawa's Custom IR period, and those for the Large User class for the final three years.
  
14. In its response to the Argument-in-Chief, VECC points out that the GS 1,500-4,999 fixed charge for 2024 (\$4,179.14) is less than the illustrative fixed charge for 2023 (\$4,239.79), and the Large Use fixed charge for 2023 is less than the illustrative fixed charge for 2022. VECC assumes that these lower values are inconsistent with the described approach and requested that Hydro Ottawa confirm its proposal as described in its Application and Argument-in-Chief. Hydro Ottawa confirms that this oversight occurred as a result of changes to the cost structure at the Settlement Proposal stage of this Application process, and that rates for these two classes should have been held at the higher value for one more year of the rate period.
  
15. Opinions regarding subsequent years of the Application vary. Several intervenors and OEB staff indicated that Hydro Ottawa's proposal to increase the fixed monthly service charge further above the ceiling during the Custom IR term is contrary to OEB Policy. The OEB's Chapter 3 Filing Requirements for IR applications states that the annual inflation adjustment to rates should be applied uniformly to fixed and variable distribution rates across all customer rate classes.<sup>5</sup> There is ambiguity in the OEB's direction regarding the inflation of monthly service charges in the outer years of a rate setting period. Hydro Ottawa's 2022-2025 proposed rate design, as discussed, was intended to follow the rate design of a typical IR mechanistic term. That said, Hydro Ottawa is not

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<sup>5</sup> Ontario Energy Board, *Filing Requirements For Electricity Distribution Rate Applications - 2020 Edition for 2021 Rate Applications - Chapter 3 Incentive Rate-Setting Applications*, page 8.

- averse to holding the monthly fixed service charge for the GS 50-1,499 kW, GS 1,500-4,999 kW, and Large User classes constant for the rate term.
16. As indicated in the multiple communications as part of the Cost Allocation review,<sup>6</sup> including the Board Directions on Cost Allocation Methodology For Electricity Distributors,<sup>7</sup> a number of topics were outside the scope of the consultation, including “substantial changes to the fixed/variable distribution rate philosophy.”<sup>8</sup>
17. ED stated “A November 28, 2007 Board report noted that utilities would not be required at that time to bring their rates down to the ceiling. However, the Board did not intend to give utilities carte blanche to disregard the Board’s cost allocation methodology and remain over 3,200% of the ceiling indefinitely.” In contrast Hydro Ottawa believes, having just completed a review on cost allocation indicating rate design would be reviewed separately, and regularly reviewing distributors’ rates, the OEB was aware of the level of monthly fixed service charges when deciding their policy. In addition, as Hydro Ottawa is following current OEB policy, Hydro Ottawa disagrees that the cost allocation methodology is being disregarded.
18. Intervenor opinion varies regarding whether the current policy should be addressed in a generic process or through Hydro Ottawa’s Application. Some intervenors suggested the process has taken too long and that Hydro Ottawa should therefore move toward the ceiling rates. This option presupposes the outcomes of the significant work that has been completed by all parties that have participated in these consultations. It relies solely on a Cost Allocation methodology that has not been adjusted for significant industry changes and has not been endorsed as mandatory by the OEB because of its potential significant impact on fairness and stability of rates.

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<sup>6</sup> EB-2005-0317.

<sup>7</sup> EB-2005-0317, *Board Directions on Cost Allocation Methodology For Electricity Distributors, Cost Allocation Review* (September 29, 2006).

<sup>8</sup> *Ibid.*, page 1.

19. While discussing the length of time the C&I rate design process has taken, and reiterating a desire to incent customers to reduce their bills (without considering that inappropriate cost shifting could occur), intervenors have not produced new evidence in support of deviating from OEB policy. They have confined their argument to a reliance on a Cost Allocation methodology which the OEB itself confirmed needs further review.<sup>9</sup> If new direction is provided to distributors, no evidence has been offered to indicate why any required change in rate design could not be implemented in later years of Hydro Ottawa's five year rate term.

### **Residential Fixed Price**

20. A number of submissions referred to Hydro Ottawa's discussion of the residential fixed rate. ED stated that "Hydro Ottawa argues that the Board's decision to move to fully fixed rates for residential customers is an implicit approval of high or full fixed rates for commercial and industrial customers."<sup>10</sup> SEC stated that Hydro Ottawa "attempt to draw a parallel between the changes to rate design for residential customers (i.e. a move to fully fixed distribution rates) with what the Board may do in the on-going consultation to review commercial and industrial rate design (EB-2015-0043). Hydro Ottawa makes these comments to bolster its view that the above the ceiling fixed charge is appropriate. While the commercial and industrial rate design consultation is on-going, the most recent Board Staff Report appears to indicate the latest thinking on the issue is that there should be no changes to the rate design for most of these customers. The Report recommends that for customers in GS>50 and above classes, "[b]ased on the feedback and further research, staff are now proposing that there be no change to the underlying rate classes, basis for fixed charge, or rate design and allocations for these customers."<sup>11</sup>

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<sup>9</sup> EB 2007-0667, *Application of Cost Allocation for Electricity Distributors, Report of the Board* (November 28, 2007), page 12.

<sup>10</sup> Environmental Defence, *Submissions of Environmental Defence Re Hydro Ottawa's Fixed Rates Over 2021 to 2025*, EB-2019-0261 (October 16, 2020), page 9.

<sup>11</sup> School Energy Coalition, *Submissions on Fixed Charge Issue*, EB-2019-0261 (October 20, 2020), page 3.

21. Hydro Ottawa wishes to correct this misinterpretation of the intent of the discussion. In referring to the residential fixed charge, Hydro Ottawa intended to point out that the calculated ceiling for the residential class has not yet been adjusted in the Cost Allocation Model to reflect the new OEB policy. Because Cost Allocation is, by its nature, a closed system, Hydro Ottawa contends that realigning the ceiling rate for the Residential customer class will create downstream impacts on the ceiling calculations for other rate classes. Hydro Ottawa does not believe this adjustment will result in a fully fixed charge for other C&I rate classes. Hydro Ottawa also does not believe that the fully fixed residential rate design implies approval of fully fixed charges for the C&I rate classes, nor had it intended to imply the most recent OEB staff report supported higher fixed charges. Hydro Ottawa does contend that the ceiling rate calculations in the Cost Allocation Model should be adjusted to better reflect the customers' use of the grid prior to requiring Hydro Ottawa to reduce its monthly fixed service charge. This is in line with Hydro Ottawa's contention that fairness and stability will be best served by completing all modelling and rate design projects prior to mandating significant shifts in rates. That said, in the review of the C&I rates design, Hydro Ottawa would not anticipate any new OEB policy to undervalue the customers connection to the grid.
22. As part of the intervenors' response it was highlighted that LDCs' rate of return has not been updated to align with the change to fully fixed residential distribution rates. As stated in the ED submission, "utilities are compensated for this risk through their rate of return. Furthermore, the utilities are currently being overcompensated for demand forecasting risk because their rate of return has not been updated to reflect the fact that they face less forecasting risk with the shift to fully fixed rates for residential customers."<sup>12</sup> ED has not presented any evidence to support this statement.
23. ED then claimed that "Requiring lower fixed rates for commercial and industrial customers is not at all unfair to LDCs. Even if we are wrong and there is an element of unfairness associated with forecasting risk, that is best dealt with through other means,

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<sup>12</sup> Environmental Defence, *Submissions of Environmental Defence Re Hydro Ottawa's Fixed Rates Over 2021 to 2025*, EB-2019-0261 (October 16, 2020), page 10.



such as a true-up.”<sup>13</sup> ED has not provided any evidence to support the contention that lowering the monthly fixed service charge is “fair” to LDCs. Nor has ED suggested any true-up mechanism as part of their request. Hydro Ottawa believes that should the fixed monthly service charge be lowered, such a mechanism should be considered as part of a generic proceeding, and if approved, the two should be implemented together.

24. It should be noted that as part of the review for residential distribution rates the OEB provided the following methodology to support costs that will be recovered while allowing the distributor to plan more efficiently. “Under the new rate design, residential distribution revenues will not vary depending on conservation, weather, or macroeconomic factors. The fixed charge will also provide greater assurance that investment costs will be recovered. The distributor will have greater certainty about the revenues it will collect leading to greater confidence around planning. This in turn will lead distributors to make investments when and as needed.”<sup>14</sup> The OEB further noted that “the return on equity compensates shareholders for the risks they bear. With a more predictable flow of revenue, one aspect of risk is reduced. While a number of stakeholders were of the view that the return on equity should be reduced, distributors were of the view that no change would be justified. This issue raises a number of important considerations and requires more extensive analysis, all of which is beyond the scope of this consultation.”<sup>15</sup>

### **C. JUST AND REASONABLE RATES**

25. The concept of just and reasonable rates is an essential element of a rate-setting process and Hydro Ottawa submits that a rate application should be assessed against that element and current OEB rate-setting policies. Hydro Ottawa submits that its historical rate design has resulted in just and reasonable rates, and is designed to value the connection to the grid and to acknowledge assets that are held for customers

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<sup>13</sup> Ibid, page 11.

<sup>14</sup> Ontario Energy Board, *A New Distribution Rate Design for Residential Electricity Customers*, EB-2012-0410 (April 2, 2015), page 12.

<sup>15</sup> Ibid., page 21.

- regardless of their use. It further stresses that distribution rate design should be implemented to recover costs based on cost causality of the distribution system.
26. Given there was no requirement for Hydro Ottawa to reconsider the fixed and variable split and prepare a new study to support the current split, evidence in this regard was not submitted in its Application. In its October 20, 2020 submissions, VECC noted that "the views in Hydro Ottawa's AIC as to what should be considered "customer costs" ... is not something that Hydro Ottawa presented in its evidence to-date and there is no documentation as to how either the \$1,600 or the \$3,100 values were derived. Nor, in VECC's view, would it be appropriate for Hydro Ottawa to do so at this stage in the proceeding."<sup>16</sup> Hydro Ottawa does not propose that its rates be set based on the examples provided in its Argument-in-Chief, however simply notes these are simple and small changes. Even without going into a detailed review, these changes illustrate an alternative and reasonable change to the ceiling that would increase the Large User ceiling by 1,130%.
27. Although this analysis was submitted as part of the Argument-In-Chief, Hydro Ottawa has not used information outside the Cost Allocation Model itself and believes additional analysis for illustrative purposes should be considered if the OEB were to deviate from its current policy. As previously indicated, Hydro Ottawa did not bring forward evidence to support the OEB policy as part of its Application and suggests this discussion should take place in the context of a broader generic consultation.
28. Under the context of lower carbon emissions, ED stated "shifting costs from fixed to variable rates will incentivize energy efficiency and efforts to shift load off the peak. This will help to reduce carbon emissions, particularly when load is shifted from the times of peak demand when Ontario's gas-fired peaking plants operate."<sup>17</sup> Load shifting without peak shaving only reduces the Electricity, Regulatory and a portion of the Transmission

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<sup>16</sup> Vulnerable Energy Consumers Coalition, *VECC Submissions re Unsettled Issue 7.3*, EB-2019-0261 (October 20, 2020), page 6.

<sup>17</sup> Environmental Defence, *Submissions of Environmental Defence Re Hydro Ottawa's Fixed Rates Over 2021 to 2025*, EB-2019-0261 (October 16, 2020), pages 5-6.

charge. As distribution rates are charged on the basis of the monthly peak, regardless of time of day, the distribution charge, whether variable or fixed is not a consideration when assessing the value of shifting load off the peak unless the peak is also curtailed. Customers who have a basically flat demand pattern have invested in temporary load shedding technology. The incentive provided by the Industrial Conservation Initiative only, without consideration of distribution charges and limited impact on electricity or transmission charges, encourages the customer to invest in these technologies for temporary load shedding several times a year.

29. In their submission, PP stated that “the settlement proposal outlines the commitment for Hydro Ottawa to coordinate with the City of Ottawa energy and emissions plan (referred to as Energy Evolution) to find cost effective solutions for consumers. Reducing energy and emissions is only supported by providing the price signal from variable costs rather than overweighting fixed costs allocation.”<sup>18</sup> Hydro Ottawa only agrees as a general principle that appropriately adjusting variable charges to support reducing energy and emissions sends the right price signal and encourages an appropriate response. Accordingly, Hydro Ottawa’s involvement in Energy Evolution will support cost effective solutions for consumers that also support appropriate cost recovery.

30. Load shifting and load shaving impact the distribution grid differently than the provincial grid. Different incentive programs have been put in place to incent specific customer behaviour. Incentives however, should not be aimed at a benefit that does not exist. This is one of the areas already under consideration by C&I rate design.

31. In its February 21, 2019 Staff Report to the Board, *Rate Design for Commercial and Industrial Electricity Customers*, OEB staff noted that “the objective of a change for these customers is to allow them to make decisions on investment in distributed energy resources for their own benefit based on sound economic principles. However, it is also important to prevent those decisions from negatively impacting more traditional

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<sup>18</sup> Pollution Probe, *Re: EB-2019-0261 Hydro Ottawa Custom IR 2021-2025 Pollution Probe Submission*, EB-2019-0261 (October 20, 2020), page 1.

customers through unintentional cost shifting. Those decisions should to be integrated into distribution system planning where possible to harness the benefits of distributed energy resources for all customers.

On that basis, OEB staff are recommending a capacity reserve charge (CRC) be designed for customers who install distributed generation with or without storage to represent the cost of capacity that is being held in the system to supply their needs when their own generation cannot.”<sup>19</sup>

32. ED stated in their submission that “the proposed fixed rates are irrational as they are not based on any logical methodology. Environmental Defence made numerous attempts to discern the basis of these rates. In short, the current charges are best described as being based on historical values dating back prior to 2007, the basis of which is unknown.”<sup>20</sup> ED references Interrogatory response IRR ED 5 part (i) and the Technical Conference Transcript, July 17, 2020 from page 126 as support.

33. Hydro Ottawa notes that Interrogatory ED-5 part (i) simply asked Hydro Ottawa to “provide the methodology, calculations, and any underlying documentation showing how Hydro Ottawa calculates the fixed monthly charge for its commercial and industrial customers.”<sup>21</sup> Hydro Ottawa’s response was intended to clarify how its fixed monthly charges for commercial customers are calculated, following OEB policy by using established historical rates and not adjusting fixed rates above the ceiling in the base year. It was not clear that Environment Defence was requesting a historical cost study or more detailed analysis.

34. Although during the technical conference Hydro Ottawa confirmed it has not located the detailed working files of the rate design from over 15 years ago, it disagrees with the premise that the basis is not founded on any logical methodology. Hydro Ottawa further

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<sup>19</sup> Ontario Energy Board, *Staff Report to the Board Rate Design for Commercial and Industrial Electricity Customers*, EB-2015-0043 (February 21, 2019), page 36.

<sup>20</sup> Environmental Defence, *Submissions of Environmental Defence Re Hydro Ottawa’s Fixed Rates Over 2021 to 2025*, EB-2019-0261 (October 16, 2020), page 6.

<sup>21</sup> This is sourced from the data provided in response to interrogatory ED-5 (Fixed and Variable Charges).

explained that the historical detailed rate design would only provide a frame of reference and that it would not reconcile fully to the current charges.

35. In responding to the technical conference undertaking JTC 3.18, Hydro Ottawa stated that “Hydro Ottawa filed its [first] Cost Allocation Study for 2006, following the OEB’s methodology as set out in the policy document entitled *Board Directions on Cost Allocation Methodology for Electricity Distributors*.<sup>22</sup> When completing the Cost Allocation, Hydro Ottawa noted in the Manager’s Summary that for the General Service 50-1,499 kW, General Service 1,500-4,999 kW, and Large User classes, the monthly fixed charge calculated using the minimum system with Peak Load Carrying Capability (“PLCC”) adjustment was significantly lower than the Monthly Fixed Service Charges in use at that time.”<sup>23</sup>

36. Because it was not a mandated requirement, and because it was felt that the model did not completely reflect the nature of the LDC cost structure, Hydro Ottawa chose not to use the Cost Allocation model as a basis to establish the fixed monthly service charge for its commercial rate classes. As noted in Hydro Ottawa’s response to undertaking JT 3.18, “the mandate of an LDC to connect everyone in the service area to the network, and serve their load requirements, creates a largely fixed cost environment. Although the variable distribution charge is in place to recover the costs for building and maintaining the distribution system to supply load, once the system has been built to supply the load of commercial customers it must be maintained at all times whether or not the expected electricity is consumed. A low monthly service charge can leave the LDC open to increased risks if the load does not materialize, since the costs of [operating and maintaining] the distribution system are largely fixed in anything other than the very long term. Converting any portion of a fixed monthly service charge to a variable rate based on consumption or demand puts the LDC at an increased risk of revenue shortfall, particularly in the environment of falling demand that would be encouraged by that

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<sup>22</sup> Ontario Energy Board, *Application of Cost Allocation for Electricity Distributors - Report of the Board*, EB-2007-0667 (November 28, 2007).

<sup>23</sup> Hydro Ottawa’s response to undertaking JTC 3.18, EB 2019-0261 (August 7, 2020), pages 1-2.

conversion.”<sup>24</sup> Hydro Ottawa’s fixed charge was designed to value the connection to the grid and to acknowledge assets that are held for customers regardless of their use.

37. As an example, Hydro Ottawa has analyzed a group of commercial customers whose peak load is steady for 9 months of the year. For the remaining 3 months of the year their peak load drops to 22% of their typical load, although the cost of operating and maintaining the network remains unchanged and has been calibrated to the higher load as mandated. Hydro Ottawa contends that converting a portion of fixed monthly service charge to a variable rate will have an impact on annual cost recovery in situations such as this that must be fully understood prior to any conversion taking place.

38. Hydro Ottawa also advocates that the distribution system is dependent on long lived assets that do not rapidly change over time and it is therefore unnecessary to engage in justifying the rate structure at every application. Once distribution assets are in place, in most cases they will remain as part of the grid regardless of customers' decreased load. That said, Hydro Ottawa supports generic consultations that examine the fixed/variable split and how they change over extended periods of time.

### **Conservation and Demand Management**

39. In their submissions, multiple intervenors addressed conservation demand management (“CDM”) in relation to current distribution rate structure for fixed and variable charges. ED noted “appropriate rate design is the cheapest form of conservation and demand management.”<sup>25</sup> They believe large fixed rates become a missed opportunity to pursue “free” CDM programs and achieve carbon reductions at no net cost to ratepayers. In ED’s view, rate design can incent positive CDM consumer behaviour by re-allocating costs from fixed to variable rates. PP was also in alignment with this belief noting “reducing energy and emissions is only supported by providing the price signal from

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<sup>24</sup> Ibid., page 2.

<sup>25</sup> Environmental Defence, *Submissions of Environmental Defence Re Hydro Ottawa’s Fixed Rates Over 2021 to 2025*, EB-2019-0261 (October 16, 2020), page 6.

variable costs rather than over-weighting fixed costs allocation.”<sup>26</sup> Similarly, in BOMA’s submission, it is noted their members have made efforts to reduce their demand through various energy reduction initiatives. In their view they are “inadequately compensated for the benefits that their initiatives provide to the distribution system as a result of the current and proposed fixed costs being so high above the Board’s ceiling”.<sup>27</sup>

40. In response to these arguments Hydro Ottawa agrees with the OEB staff position that the supply charge for electricity provides the greatest opportunity for customers to realize savings through conservation initiatives. As stated by the Independent Electricity System Operator (“IESO”) on their Price Overview webpage, the “wholesale price of electricity is determined in the real-time market administered by the IESO.”<sup>28</sup> As a result, the cost of electricity is set on a constantly fluctuating rate that is priced by considering both supply and demand. In addition, true-up mechanisms exist for the IESO to recover costs. In comparison, the distribution rate structure is set for a five year term at a minimum, which does not allow distributors to adjust rates for the introduction of new and emerging technologies and CDM that could potentially reduce load. In order to ensure the recovery of assets invested by utilities, the OEB introduced the Lost Revenue Mechanism (“LRAM”).

41. In relation to conservation, the OEB noted in the OEB policy for *A New Distribution Rate Design for Residential Electricity Customers* that “the supply charges, including the time-of-use structure, provide the strongest and most accurate price signals to support customer conservation decisions. First, the supply charge represents about 50% of a customer’s bill, whereas the variable distribution charge represents a smaller portion, only about 5% to 15%. Therefore, conservation (either reducing total use or shifting use to the off-peak period) will still result in direct and significant bill reductions, even when

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<sup>26</sup> Pollution Probe, *Re: EB-2019-0261 Hydro Ottawa Custom IR 2021-2025 Pollution Probe Submission*, EB-2019-0261 (October 20, 2020), page 1.

<sup>27</sup> Building Owners and Managers Association, *Written Submissions Of The Building Owners and Managers Association (“BOMA”)*, EB-2019-0261 (October 20, 2020), page 2.

<sup>28</sup> <http://www.ieso.ca/en/Power-Data/Price-Overview/Hourly-Ontario-Energy-Price>



the distribution charge is fixed.”<sup>29</sup> Hydro Ottawa notes these comments are in relation to the residential rate design.

42. As noted, the OEB has a current ongoing consultation on Commercial and Industrial rate design. The OEB is also considering CDM impacts as part of that consultation. As noted on page 5 of the February 21, 2019 report, “as was done for residential customers, a mock tariff was developed and sample rate impacts were assessed. A sensitivity analysis of each scenario was undertaken to better understand what kind of cost shifting from active customers to more traditional customers would result from conservation and distributed generation.”<sup>30</sup> The report further states that customers in the >50 kW rate classes “are more likely to own their own facilities and make investments in distributed energy resources such as generation and storage to manage their bill. The objective of a change for these customers is to allow them to make decisions on investment in distributed energy resources for their own benefit based on sound economic principles. However, it is also important to prevent those decisions from negatively impacting more traditional customers through unintentional cost shifting. Those decisions should be integrated into distribution system planning where possible to harness the benefits of distributed energy resources for all customers.

On that basis, OEB staff are recommending a capacity reserve charge (CRC) be designed for customers who install distributed generation with or without storage to represent the cost of capacity that is being held in the system to supply their needs when their own generation cannot. Staff recommend that these would be mandatory for distributors to implement for distributed generation.”<sup>31</sup>

### **Utility Remuneration and Responding to Distributed Energy Resources (EB-2018-0287 and EB-2018-0288)**

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<sup>29</sup> Ontario Energy Board, *A New Distribution Rate Design for Residential Electricity Customers*, EB-2012-0410 (April 2, 2015), page 7.

<sup>30</sup> Ontario Energy Board Staff Report to the Board, *Rate Design for Commercial and Industrial Electricity Customers* (February 21, 2019), page 5.

<sup>31</sup> *Ibid.*, page 36.



43. In addition to the ongoing consultation on C&I rate design, in 2019 the OEB initiated these two integrated consultations with the aim of advancing its work in adapting the provincial regulatory framework to support the evolution of the energy sector in Ontario.<sup>32</sup> The launch of this coordinated consultative process was informed both by the OEB's 2017-2022 *Strategic Blueprint* and by the findings of the Advisory Committee on Innovation, which was established in 2018 with the mandate to identify actions that the OEB could take to create an environment that would support innovation that brings value to customers.
44. To date, the OEB has convened two stakeholder sessions under the auspices of these consultations. The first was held on September 17-19, 2019, and was intended to provide a forum in which stakeholders could provide input on the appropriate scope, principles, and objectives that should guide these initiatives. The second meeting took place on February 20, 2020, and served as an opportunity for OEB staff to outline its then-current thinking on the optimal scope of each consultation and to engage in further dialogue with stakeholders on the various issues that had been raised for consideration at that point in the process.
45. The most recent development in these consultations was the issuance of a letter by the OEB on September 24, 2020.<sup>33</sup> This letter informed stakeholders that, in light of the COVID-19 pandemic, the OEB had commissioned two expert studies to help confirm the appropriate scope, sequencing, and pacing of issues to be addressed within these consultations.

#### **D. CUSTOMER IMPACT AND RATE STABILITY**

46. Hydro Ottawa submits that its proposed rate design provides reasonable and stable rate impact to the GS 50-1,499 kW, GS 1,500-4,999 kW, and Large User classes. Deviation

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<sup>32</sup> Ontario Energy Board, Letter re: Utility Remuneration and Responding to Distributed Energy Resources Consultation Initiation and Notice of Cost Awards Process, EB-2018-0287 / EB-2018-0288 (March 15, 2019).

<sup>33</sup> Ontario Energy Board, Letter re: Utility Remuneration and Responding to Distributed Energy Resources, EB-2018-0287 / EB-2018-0288 (September 24, 2020).

from the current rate design will provide large monthly and yearly impacts to some commercial customers. No consultation or communication on a proposed change in rate design has been provided to Hydro Ottawa customers as part of this Application proceeding.

### **Customer Impact**

47. In their October 20, 2020 submission, OEB staff requested an assessment of the requirement for a rate mitigation plan in the event that the Monthly Service Charge for commercial customer classes is reset to the calculated ceiling.

48. The 2016 release of the OEB Rates Handbook sets out OEB policy regarding rate mitigation in rather general terms: “The OEB expects utilities to mitigate bill impacts through the pacing and prioritizing of investments and activities. For electricity distributors, the OEB has a policy requiring the filing of a mitigation plan when the total bill impact is 10% or more for any customer class.”<sup>34</sup> This is a more direct instruction than that given in the 2012 Renewed Regulatory Framework for Electricity Distributors which established a “soft” 10% threshold and only required Distributors to consider mitigation if the threshold were crossed. In either case, the direction considers only total bill impacts at the customer class level, although it should be recognized that in any grouping of customers into classes there will be winners and losers when a major rebalancing of rates such as the one under discussion is implemented.

49. Resetting the proportions of revenue requirement collected by fixed and variable charges within a customer class would have little impact on the forecast revenue requirement for the class as a whole, however the impact on individual customers within the class can be significant. Customers with higher demand within the class will see increases to their bills while customers whose demand is at the lower end of the class spectrum will see decreases. In dollar terms, the largest adverse impact will of course be experienced by customers in the Large User category with the highest demand, however some of the businesses in the other commercial customer classes will also see

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<sup>34</sup> Ontario Energy Board, *Handbook for Utility Rate Applications - Appendix 3*, (October 13, 2016), page v.

significant, to them, increases. While no one customer class's bill impact would be expected to exceed the 10% threshold it would still be prudent to consider a mitigation plan that phases in the change over a number of years should Hydro Ottawa be directed to proceed with the move to the ceiling for Monthly Fixed Service Charges. A similar approach was used when the residential rate design was changed, where both a percentage of total bill and a dollar threshold was established.

50. Table 1 below provides a comparative summary of the expected distribution and total bill impacts of moving to the ceiling rate for a typical customer with demand in the upper range of each commercial customer class. The first two columns compare monthly 2020 approved rates to both the proposed 2021 settlement and 2021 ceiling rates. In each case the ceiling rate results in a substantially higher dollar monthly increase in both the distribution portion of the bill and the total bill. The final column shows the expected annual impact on the total bill, compared to 2020, of moving the Monthly Fixed Service Charge from the proposed settlement rate to the ceiling for those same modeled customers.

**Table 1 – Summary of Bill Impacts Settlement vs Ceiling**

Rate Class		2020 Approved	Settlement 2021	Ceiling 2021	Annual Impact on Total Bill <sup>35</sup>
General Service 50 kW - 1,499 kW (1,400 kW)	Distribution Charge	\$7,267	\$7,394	\$8,233	
	Change in Distribution Charge		\$128	\$967	
	% Distribution Increase		1.7%	13.0%	
	Change in Total Bill		\$2,782	\$3,730	\$11,374
	% Increase of Total Bill		2.9%	3.9%	
General Service 1,500 kW - 4,999 kW (4,500 kW)	Distribution Charge	\$25,339	\$25,399	\$30,492	
	Change in Distribution Charge		\$60	\$5,153	
	% Distribution Increase		0.2%	20.3%	
	Change in Total Bill		\$9,246	\$15,002	\$69,061
	% Increase of Total Bill		2.8%	4.5%	
Large Use (15,500 kW)	Distribution Charge	\$83,821	\$86,300	\$99,533	
	Change in Distribution Charge		\$2,478	\$15,712	
	% Distribution Increase		2.8%	18.2%	
	Change in Total Bill		\$36,220	\$51,174.	\$179,441
	% Increase of Total Bill		3.0%	4.3%	

<sup>35</sup> May not be exact due to rounding

51. PP stated that “Pollution Probe has had an opportunity to review the Submissions of Environmental Defence dated October 16, 2020 and concurs with those submissions. Furthermore, increased fixed costs (particularly significantly above the proposed OEB ceiling) remove the ability for customers to manage variable costs, take action and reduce their energy bills. This is particularly important in light of the cost pressures on business due to COVID-19.”<sup>36</sup> Hydro Ottawa suggests this statement does not recognize that the proposed fixed/variable rate design is built upon an established methodology and although some customers would experience a benefit from reducing the fixed monthly service charge, other customers will experience a negative impact as they are dealing with pressures of COVID-19.

### **Rate Stability**

52. Hydro Ottawa’s Argument-in-Chief stated that since before the inception of the OEB’s standard Cost Allocation Model, Hydro Ottawa has focused on maintaining continuity in its rate design approach for fixed and variable charges.

53. It was further noted that should a rate structure be ordered as part of this proceeding that is different from Hydro Ottawa’s historical rate design structure, Hydro Ottawa’s commercial customers could be subject to multiple distribution rate designs in a relatively short period of time. This could result in customers experiencing fluctuations in their bills and potential temporary increases and decreases related to different rates designs. At a time when commercial and industrial customers are already dealing with significant pandemic-related disruption, this sort of instability could be expected to result in customer confusion and dissatisfaction.

54. The OEB staff submission stated that the “current OEB policy addresses the concern of rate stability by not requiring utilities to reduce fixed charges to the ceiling, only

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<sup>36</sup> Pollution Probe, *Re: EB-2019-0261 Hydro Ottawa Custom IR 2021-2025 Pollution Probe Submission*, EB-2019-0261 (October 20, 2020), page 1.

requiring that they not be increased further above the ceiling.”<sup>37</sup> They go on to say “that ED’s proposal would be a significant change to the rates Hydro Ottawa has been charging its commercial customers and is therefore contrary to this principle.”<sup>38</sup> In conclusion the OEB staff “submits that the fixed charges should remain at their present, 2020 levels for the 2021-2025 Custom IR term in the GS > 50 to 1,499 kW, GS 1,500 to 4,999 kW, and Large Use rate classes. This is consistent with the Filing Requirements and current OEB policy. These require that changes not be made to increase fixed charges above the ceiling, but also do not require that fixed charges be lowered to the ceiling. It is also consistent with the rate design principle of stable and predictable rates.”<sup>39</sup>

55. Should the OEB approve a rate design that falls outside the current OEB policy and reduces Hydro Ottawa’s fixed monthly service charge, Hydro Ottawa suggests that the adjustment should not be effective January 1, 2021. Hydro Ottawa performed extensive customer engagement as part of its 2021-2025 Custom IR Application. During those consultations, the concept of a new rate design was not proposed. Given that a Decision would be provided no sooner than two months prior to the January 1, 2021 effective date, Hydro Ottawa suggests this does not provide customers appropriate notice to react to any potential rate design change.

## **E. HYDRO OTTAWA’S FIXED/VARIABLE SPLIT POSITION**

56. Hydro Ottawa submits that its proposed distribution rate designs are appropriate and fall within current OEB policy and guidelines, and that the OEB should accept Hydro Ottawa’s rate designs as proposed. However, Hydro Ottawa is not averse to holding the monthly fixed service charge for the General Service (“GS”) 50-1,499 kW, GS 1,500-4,999 kW, and Large User classes constant for the rate term.

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<sup>37</sup> Ontario Energy Board Staff, *OEB Staff Submission on Issue 7.3*, EB-2019-0261 (October 20, 2020), page 7.

<sup>38</sup> *Ibid.*

<sup>39</sup> *Ibid.*, page 8.